

**SPECIAL COMMITTEE TO REVIEW ENERGY CONTRACTS
AND RELATED PROJECTS**

January 29, 2001

5:00 PM

Chairman Wihby called the meeting to order.

The Clerk called the roll.

Present: Aldermen Wihby, Sysyn, Pinard, Shea, Thibault

Messrs: R. Sherman, S. Tellier, T. Parsons, F. Thomas

Chairman Wihby addressed Item 3 of the agenda:

Communication from Deputy Finance Officer Sherman submitting a Memorandum of Understanding (MOU) between the City and CHI Energy, Inc. (CHI) relative to the management and operations of the Amoskeag Hydro Station (Amoskeag) for the Committee's consideration.

Mr. Sherman stated this is the MOU that we talked about at the last Committee meeting. It hasn't changed. None of the provisions have been altered. I did put the highlights in the letter. What I need is approval to move this or a signature before the PUC hearings start on the valuation process for Amoskeag. Part of this agreement is that Consolidated Hydro will provide testimony and witnesses for us at that hearing at no cost. Obviously, it benefits them in the long run. I will take any questions if you have any.

Alderman Thibault stated I have been reading in the papers recently about what has been happening in California. Is there any way that that can impact us here in New Hampshire?

Mr. Sherman replied what is happening in California can happen in New Hampshire. The reasons that it is happening may not be the same, but once you go out and start procuring power in a competitive market, if you are not protecting yourself, if you are not running contracts and you are just buying on the spot market which is the problem that they are having out there, you are at the will of the owner of the power. As markets get tight, if you are not contracted they can do whatever they want with those prices.

Alderman Thibault asked are you saying that we have protected ourselves or we are looking to protect ourselves.

Mr. Sherman answered well you haven't protected yourself yet. You have the mechanism in place to protect yourself. Amoskeag certainly would be a part of that as you would have your own power to supplement or offset higher prices, but the other part of it is contracting under the MAAP program. Going out and competitively procuring power and protecting yourself.

Alderman Shea asked, Randy, the company that we are going to sign this agreement with, what do they put into this equation. In other words, I know that you listed eight or nine things that they are going to do, but if in fact we proceed we will purchase the hydro station and are they going to put any money into it?

Mr. Sherman replied what they are going to do...we would actually because our credit rating and bonding interest rate would be much better than theirs would, the City would issue the debt and acquire the facility. The license would be transferred from PSNH to the City and then what the City would do is sign a lease agreement with Consolidated Hydro. What Consolidated Hydro would then do is guarantee the City lease payments equal to or greater than our debt service payments regardless of what the revenue flow is from the facility. So, if we should happen to have a dry year, Consolidated Hydro will still make a lease payment to the City so that the City has the funds to pay off the debt. In the good years, Consolidated Hydro will obviously still be making a lease payment to the City, but then the City and Consolidated Hydro will share those excess revenues. So, there is really no downside to the City. The City is protected from the downside, but we get to share in the upside from the facility. Consolidated Hydro will come in and do all of the O&M and take care of the capital needs and again this is all from the flow of revenues from the facility. They will provide employee protection for PSNH's employees...they have agreed to take the employees.

Alderman Shea asked but in essence they aren't really up front providing any financial resources. They are going to...in other words once we purchase it they are going to then run it and I assume they are going to use some of the lease agreement's...the money that they receive from operating to pay back to the City. Is that correct?

Mr. Sherman answered yes. They are going to use the revenues from the output to make the lease payment to the City. That has to be the first dollar out. They are also required to make a payment in lieu of taxes to the City and again out of that flow of revenues they will also take care of all of the capital, all of the employees, all of the insurances, etc. They are going to have to take that all out of that flow of revenue. If they come up cash short, that is not the City's problem.

Alderman Shea asked is it predicated somewhat on the SMG that is running the civic center. In other words, they are not putting anything up front but they are agreeing to operate the civic center and whatever they get...is it sort of like that situation. In other words, they haven't put anything towards the building of that okay. The same company isn't putting anything towards the purchase of the hydro station. So, what they are really doing is insuring that it doesn't operate at a loss and any money that they take in they are going to guarantee that the City is going to receive something in return financially as well as operating so that electricity is provided, but I am not sure how much they are really committing.

Mr. Sherman answered they are committing to make quite a few payments. It is similar to the civic center. That was kind of the thought process that we had in the fact that the City is protected on the downside. What they have guaranteed up front is they are going to pay us back for any costs that we have incurred to date and that is all coming out of so to speak their revenues from the facility. So even though they are not throwing any cash up front, in all honesty you don't want it because it is very expensive cash. If you recall back to one of the arguments on the civic center it was we thought Ogden was going to put money in but it was really a loan. You really don't want them to be that type of partner. They are going to be looking for rate of return of 15% or 20% and you are better off issuing general obligation bonds and keeping those costs down.

Alderman Shea stated in reading through this, there are certain problems that are connected to obviously deregulation and when we come into the actual signing there will be sort of protection in case of problems that might be related to deregulation.

Mr. Sherman replied what we have in here is that there will be a power purchase agreement so the City really has the first right to that power. Now, if nothing else, if the City decides that they are going to sell that power into the market and if market rates are up 5 cents a kilowatt hour, that is what you are going to be selling it at and then you will be generating that excess cash flow out of the facility and then the City would get a piece of that action back.

Alderman Shea stated my final question is what financial impact will residential owners realize in this purchase agreement.

Mr. Sherman replied it actually is going to have no financial impact on the City on the negative side because again you are going to be issuing the debt and you are going to be receiving a payment back to make that debt so there is no tax impact. On the positive side, you will get a payment in lieu of taxes much larger than you are getting in property taxes right now because the value is going to go from \$2.5 million to \$3 million up to the \$12 million plus range so immediately your tax

impact changes. You also will get the cheaper power. You will also get the advantage of the fact that under the School funding package right now generating facilities pay a tax to the State with the idea that the Town of Seabrook shouldn't get all of the taxes from the nuclear power plant so now they pay it up to the State and then it goes into the allocation formula. Where the City will own this facility, that payment will now come to the City. It doesn't change your distribution under the Education Adequacy Grant. You are actually making out better by owning it rather than having a third party own it.

Alderman Shea asked will the electricity be focusing on commercial and business enterprises rather than residential homes. Where will the focus of the generation of electricity go? Will it go towards the commercial and industrial parts of the City?

Mr. Sherman asked the output from Amoskeag.

Alderman Shea answered yes.

Mr. Sherman replied it can go wherever the Aldermen chose it to go. If you want to use it just for municipal accounts and, therefore, spread it out to both residential...if you use it for municipal accounts you will be reducing your tax rate by using it or if the City should decide that they want to use it for just economic development and say hey anybody in manufacturing who moves up to Hackett Hill here is a great rate for you...you know give somebody an incentive to come in. Again, the Aldermen can really chose to use that as you want or again you can maybe sell it into the market and have the cash come back in.

Alderman Shea responded when you submitted this to us, this is one of the problems out in Ohio or someplace where the residential homes weren't being benefited, but it was obviously benefiting the business community at the expense, according to the article...because the residential areas didn't see any benefit of this particular situation and I wouldn't want that to happen here.

Mr. Sherman replied we certainly could use it to that benefit, but if you recall and I know that you have been around a long time with this Aggregation concept, we have consistently said that the residential customer is the one that is going to get left behind. We have seen it in Ohio and California and Pennsylvania and everywhere else. That is the whole idea of Aggregating. By hooking those residential accounts in with your municipal accounts, you have some of the best loads in the State right here in the City with an Airport, two treatment plants, you are going to have the civic center on there. Manchester is going to be a jewel and to be able to use our buying power to help the residents, I think, is a great benefit that you have.

Alderman Gatsas asked who is CHI.

Mr. Sherman answered Consolidated Hydro.

Alderman Gatsas asked what is their net worth.

Mr. Sherman answered I don't have that, but I do have their financials downstairs and I could provide that to you. I don't have it with me.

Alderman Gatsas asked you looked at them.

Mr. Sherman answered yes. We went through a qualifying stage where we got financials and did go through all of that.

Alderman Gatsas asked give me a ballpark net worth.

Mr. Sherman answered to be honest with you, I couldn't off hand. It has been a number of months since I looked at it.

Alderman Gatsas asked are they a publicly traded company.

Mr. Sherman answered yes.

Alderman Gatsas asked on the NY Stock Exchange.

Mr. Sherman answered that would be my guess.

Alderman Gatsas asked what are they guaranteeing the lease with.

Mr. Sherman answered they are going to guarantee the lease...we are going to get their corporate backing on that.

Alderman Gatsas stated now you started talking with Alderman Shea about the Aldermen would have discretion on where the power goes. I don't see that anywhere in this letter of memorandum.

Mr. Sherman replied what we have in here is that we will negotiate a power purchase agreement. What we will be able to do between Consolidated Hydro and the Aggregation Program, whoever is supplying the Aggregation Program, if we chose that that power is going to go just to the residents in that program we can swap power with our supplier and they will use that price of power that they are taking and allocate that price to our residential customers if that is what you chose

to do. If they are going to buy 16 megawatts...let's say they sell out 32 megawatts to residents. They can take that 16 and average the price out and give them the power or again if you would rather that it go to the large users, you can do it that way. You can allocate it however you like.

Alderman Gatsas asked so what you are saying is basically the 4.4 cents per kilowatt hour that is in the agreement with the State, you are saying that because we set-up an Aggregation and we have our own utility that we don't have to charge that.

Mr. Sherman answered if you are generating power over at Amoskeag at less than the 4.4 cents...

Alderman Gatsas interjected you didn't answer my question. My question is according to the agreement that is in place right now, can we charge Public Service customers less than the 4.4 cents per kilowatt hour that is in that deregulation program right now. Before you answer, you ought to know where you are coming from with that.

Mr. Sherman replied yes. That is the transition rate.

Alderman Gatsas asked so you are saying that we can charge 4 cents if we want.

Mr. Sherman answered if it is your own power, yes. That is the transition rate. If you get your power through the transition rate, okay, you are going to be paying the 4.4 cents. If you have gone out and contracted with another supplier other than the transition service, you will be charging whatever your contract is and if you have a supplier out there that you can swap Amoskeag power with, you can lower it well below the 4.4 cents.

Alderman Gatsas replied I don't want to challenge you, but I can tell you that I went through some interesting experiences today at the State House and that is not the case. That 4.4 cents per kilowatt hour is there for two years.

Mr. Sherman responded that is the transition rate, but you have the ability to go out and contract with another supplier.

Alderman Gatsas stated for the first two years we cannot charge less than that because those are customers of Public Service Company.

Mr. Sherman replied yes you can, Alderman. I would disagree with that.

Alderman Lopez asked, Randy, sort of on the same line under 1.2 City Representation, who are they, who determines that and why isn't it spelled out. In reading this, they have the authority to negotiate projects, agreements and everything else without...are we saying without coming back to this Board for anything? What are we saying in this paragraph?

Mr. Sherman answered the Amoskeag Committee has been around for about three years at this point. It is myself, Frank Thomas, Bob Beaurivage, Tom Arnold, Tina Parsons and Rich Davis and Doug Gherlone have also been members of that Committee. What this is saying here is that Committee will take the responsibility for negotiating those but all of these contracts would have to come back to the Board for approval as this MOU would.

Alderman Lopez stated then it should say someplace in the MOU that the Board of Mayor and Aldermen will have final approval on contracts or other projects. I am just a little confused on that and I wanted to bring it up.

Chairman Wihby stated I don't think any committee can authorize anything anyway.

Alderman Lopez stated well it is a separate committee and if you lease this it is a whole new ballgame to a degree.

Chairman Wihby replied it would still have to be signed by the Mayor.

Alderman Lopez asked under 1.2 on Page 4, Payment in Lieu of Taxes, would you go over that again because if you lease this property...now there is no State law saying that they can be taxed is that correct. So in lieu of taxes we are going to get less than the value of it, am I correct?

Mr. Sherman answered no. On this payment in lieu of taxes you will get a payment actually equal to what your property taxes would be on that facility.

Alderman Lopez asked who would make that determination.

Mr. Sherman answered it is still going to have to be assessed by the Assessors as far as what the value of that facility is but then that value will be applied against the property taxes, which again is all coming back to the City where under the current formula, Amoskeag's State education share goes to the State and not to the City.

Alderman Lopez asked could you explain Item D also, Additional Licensing costs and stuff like that. What are we talking about?

Mr. Sherman answered again if Consolidated Hydro comes in and they recommend some capital improvements over there it would be or it may be cheaper for the City to issue the bonds for those capital improvements, again backed by Consolidated Hydro corporate level and the revenues of the facility. The facility's license is expiring in the next five years and that is where we are talking about the relicensing costs. Those certainly are eligible to be bonded. It can be quite an expensive undertaking to get a facility relicensed. It does affect the value of the facility so when we are determining what the City would pay for this, that relicensing cost is being taken into consideration.

Alderman Lopez asked would that be a revenue bond then.

Mr. Sherman answered it could be a revenue bond. It actually would be to the City's benefit to do it as a general obligation bond. The rates would be cheaper, but if the City like on the civic center the City did opt to push it as a revenue bond, we certainly could do that.

Alderman Lopez asked in the capital improvement if we are going to go bonding and we have X number that would be part of capital improvement under general revenue bonds that would take away from a lot of other things. Am I correct?

Mr. Sherman answered not it wouldn't. It wouldn't be any different than an EPD or a Water bond because it is actually backed by the revenues from the facility and the lease payments from the facility it doesn't impact your bonding capacity for schools or any other purpose.

Alderman Lopez asked on Article V under 4.1 (B), am I reading that if we decided at some other time that we wanted to sell this and get out of it that we would have to pay up to \$175,000 and they haven't put any money into it.

Mr. Sherman answered no. What this agreement does is once we approve this MOU it gets Consolidated Hydro on the hook to provide some services to the City. They would come in and help us with the valuation hearings and help us do some costing and some negotiations with PSNH. What Consolidated Hydro's concern was is that they come in and provide six months worth of engineering and consulting and services to the City and then at the last minute the City says thank you very much for all your free stuff and now we are going to go hire Company X, Y, Z. At that point, the City would be on the hook for this up to \$175,000. The issue is and the reason we talked at the Committee level the last time about this is if Company X, Y and Z came in and made a counterproposal, if you were going to actually sit down and evaluate whether this was a better proposal than what you had with Consolidated Hydro, certainly \$175,000 would be taken into

consideration and the offer would have to be so lucrative that it would cover that \$175,000. So, we really felt that that was a non-issue. One, we don't think that the City would ever do anything like that with anybody that it is contracted with and two, again if somebody was going to make a better offer it would have to include that \$175,000.

Alderman Lopez asked how many companies did you have to choose from.

Mr. Sherman answered in this round we only had two. The last time, we had four.

Alderman Levasseur asked if we approve the MOU you are agreeing to go forward with the purchase of the dam because if we decide to purchase the dam they are automatically going to get that \$175,000 by the terms of this agreement. Isn't that correct?

Mr. Sherman answered no.

Alderman Levasseur stated if the City terminates this agreement for anything than a breach by CHI, and the City ultimately purchases the Project, then CHI shall be reimbursed.

Mr. Sherman replied if we breach this agreement and purchase it. If the City decides not to purchase it, we have not commitment to CHI.

Alderman Levasseur asked but if we do purchase it...

Mr. Sherman interjected if you do purchase it and you don't come to an agreement with CHI on a lease, I mean if we decide to go with somebody else.

Alderman Levasseur asked so in other words if they stay as the organization running the plant, then that \$175,000 is not an issue.

Mr. Sherman answered yes.

Alderman Levasseur stated as far as reading the articles that Tina Parsons provided and I think they were good articles to put in here for us to get a good indication of what is going on with other communities, I think this hydro dam is different from the ones we are talking about in Ohio and other states. If we purchase this and we enter into an agreement, we actually control the electricity for this ourselves. We don't have to ask for anybody's help or any regulations help and we don't have to join any power grids or anything. We actually own, with CHI managing that, we can do what we want with that electricity and it is also not something where you have to go out and purchase oil or gas to run the

plant. It is run by water so it is different than what we have been reading about as far as other electric providers in other states. This is actually a better situation than what those other states have because we have the source of water right here and the source of supply is readily available. It is not like we are taking as much of a risk as these other guys are. Am I correct in that statement?

Mr. Sherman replied you are correct and again you don't even need water. Again, Consolidated Hydro is going to cover all of your risks as far as cash flow goes.

Alderman Levasseur stated the only question I have is if we were to go forward and purchase this, we bond it but they will be paying for the actual bonds themselves. It would be just like you said like the Airport. The City is not going to be held responsible for the money on the bonds. It is a revenue bond just like you would be doing with the Airport. We would just be in charge of saying what needs to be done and stuff?

Mr. Sherman replied actually Consolidated Hydro would do that. They are the professionals and we will let them tell us what needs to be done.

Alderman Levasseur stated just like Kevin Dillon does at the Airport, we would have the same situation here.

Mr. Sherman replied yes.

Alderman Levasseur stated with the Airport we don't get any revenue though.

Mr. Sherman replied that is correct.

Alderman Levasseur stated but with this we will be getting revenue. Now based on...that is the one thing I want to make sure of. How much money do we have the potential of receiving? Do we have any potential or are we going to be break even?

Mr. Sherman replied the first thing you will receive is the payment in lieu of taxes. That could be several hundreds of thousands of dollars. More than you are receiving right now.

Alderman Levasseur asked what are they paying us now.

Mr. Sherman answered I think the taxes right now are about \$175,000. Again, depending on where the value of this ends up, you could be up in the \$400,000 or \$500,000 range as far as the payment in lieu of taxes. Right out of the shoot, you have the ability to pick up several hundred thousand dollars. You also will be

getting the cheaper power. You will get that benefit as well. If you take the difference between what they are manufacturing that power for and what the market rate is, you are talking about several million dollars a year difference in the market price of power versus what you are generating it for. The third thing that you will get is from the excess cash flow. Now that will all depend on, again the price that you are going to pay for the facility because again there may not be an excess unless you have a really wet year over there, but again Consolidated Hydro is protecting you against that.

Alderman Levasseur asked what is the incentive for them to manage this. What money will they be making on this?

Mr. Sherman answered they think that they can run it more efficiently and get better output than has been the case over there. PSNH has not necessarily maximized the facility. They are using it sort of to fill spots when they need the power.

Alderman Levasseur asked what then do we have as a Board...you know we can set the rates at whatever we want and what if 4.4 cents is the lowest rate that the State allows us to do for two years and we know that 2.5 cents is the break even number where nobody loses money and we still get our in lieu of taxes. What is the incentive for them to say no we don't want to go to 2.5 cents. We would want to go 2.5 cents to make sure that our municipality is taken care of in the best interest. Where do we have the control there? Is there any control where we can say 3.7 cents is a good number?

Mr. Sherman answered that is where your power purchase agreement comes into play as far as negotiating that. What we did have in here is that they would sell us that power at below market. So if the market is 4.4 cents and they are generating at 2.5 cents, we are going to be somewhere between 2.5 cents and 4.4 cents. So, you get a savings from the market rate and there is sufficient cash flow in the facility.

Alderman Levasseur asked so you are going to tie this to market rate.

Mr. Sherman answered yes. The deal is that they are going to sell it to us below market. They are not going to come in and sell it to the City at 5.5 cents if the market is 4.4 cents.

Alderman Levasseur asked how many other companies are you expecting in the State of New Hampshire to be selling electricity. Is the market rate set by the PUC or is it set by the competition?

Mr. Sherman answered eventually the market rate will get set by the market. Initially, it is set by the settlement agreement, which is the transition rate but even on that transition power, it is being competitively bid. I don't think that...it is being competitively bid but it is not necessarily prime users that you are bidding for. Their bidding transition service is mainly going to be used by residential customers, which is an absolutely lousy load. Again, Manchester is really a jewel out there as far as what its load is and I think that the City can beat the transition service rate that is out there. Again, you will have your own power to maybe shave off some of those peak issues, which is where you pay a lot of your dollars. The civic center is going to spike. There will be times when it spikes. You do not want to be responsible for the electric bill in April for the civic center, but if you have your own power when the water is really running in the month of April and you can shave off those peak loads over at the civic center, you can save yourself a lot of money.

Alderman Levasseur stated let's say that Hackett Hill gets a big manufacturing company, are they going to negotiate a lower rate or are they going to have to pay the same rate that you set. Is there going to be competition within competition for the dam itself or CHI?

Mr. Sherman replied everybody within the boundaries of the City has the right to go out and negotiate their own rate. Anybody who joins into the Aggregation Program will accept the rate that the Aggregation Program has. If the Aldermen chose to use Amoskeag to help in a situation like that and entice someone into the City, you can certainly go in and buy the rate down even further.

Alderman Shea asked if the electricity in the civic center is reduced, that is really going to help SMG isn't it because they are going to be paying the electric bill or am I wrong.

Mr. Sherman answered what it does is it may get SMG to breathe a sigh of relief because as the dollars flow through the buckets they are the ones who have to come up with the shortage of the cash flow. In the end when it flows all the way down to the bottom line, you will have bigger reserves. SMG can only take so much money out of it so if it flows down and there is an extra \$100,000 from your electric bill in there it is going to flow into reserves and flow down and get shared by the hockey team and the City depending on how far it flows down. However, you are right. Up front it gives them a little comfort.

Alderman Shea stated let's assume that we float either a general obligation bond or a revenue bond for \$15 million. How long will it take us as a community to realize a benefit financially? I know that you have been talking about in lieu of taxes and so much more but are we talking a 20-year period, 10-year period, 50

years? I know that we haven't decided on a price yet but is there some kind of thinking going on here that we are not going to be...

Mr. Sherman interjected I don't have my numbers in front of me so don't hold me to this but on a pure cash basis getting the \$15 million back probably less than 10 years.

Alderman Gatsas asked what is the spot rate per kilowatt hours today.

Mr. Sherman answered I don't have that but Tina may have that.

Alderman Gatsas stated how about if I tell you it is 7 cents per kilowatt hour.

Mr. Sherman replied I believe that.

Alderman Gatsas stated let's assume and I certainly have a lot of respect for you but I just went through a four hour process today on deregulation so you may be up to speed and a lot further ahead of the curve than I might ever be but I have some serious concerns and I have had those concerns for several months about deregulation. Why don't we first understand where we are with the deregulation process? Let's assume that everything goes as prescribed in the deregulation legislation and I am not sure that may happen, but if that bill goes into effect on April 1 in nine months the commercial and industrial carriers are no longer protected by the transition power rate of 4.4 cents per kilowatt hour. Do you agree with me so far?

Mr. Sherman replied yes.

Alderman Gatsas asked do you agree that the 4.4 cents per kilowatt hour is the rate that is fixed in the deregulation process.

Mr. Sherman answered if you are using the transition rate, yes.

Alderman Gatsas asked do you know what the transition rate is.

Mr. Sherman answered I believe it is the 4.4 cents.

Alderman Gatsas asked why don't you explain to us what you assume if we close on the power plant a week from now if we had that ability. Are you saying to this Committee that you believe that the power on the transition rate could be less than 4.4 cents? Is that what you are telling me or are you really not sure?

Mr. Sherman answered what I am saying is we can generate power at Amoskeag for less than the 4.4 cents and if you go out to bid what I am saying is I think you can beat the 4.4 cents.

Alderman Gatsas replied that is not the question I asked. The question I asked you by law in the deregulation are we able to do it for less than 4.4 cents?

Mr. Sherman responded I believe that you are.

Alderman Gatsas asked you are sure about that. Absolutely, unequivocally?

Mr. Sherman answered I am absolutely sure that if you go out and procure power on your own that you are allowed to pay whatever you are paying.

Alderman Gatsas asked and you don't think there is anything in that deregulation provision that says that 4.4 cents has to stay in that process for two and a half years.

Mr. Sherman answered. No, the 4.4 cents is the transition rate and that is in there for the two and a half years but that is if I stay on the transition service. If I decide to get my service elsewhere, I will pay whatever I am contracted to pay.

Alderman Gatsas stated in your agreement you have in there that it is market price. If market price is 7 cents a kilowatt hour, how does that affect your transition power rate?

Mr. Sherman replied I either don't understand the question or we just crossed two issues. It is two things...

Alderman Gatsas interjected you said that they would be selling it back to us at 7 cents. You put in here market. If the market rate is at 7 cents, you are saying that the transition rate of 4.4 cents is gone?

Mr. Sherman replied if the market price is 7 cents and you stay on the transition service, you will be paying the 4.4 cents and PSNH will be accruing a receivable and you are going to pay for it later on as a stranded cost. If the transition rate is 4.4 cents and market is 7 cents and you own Amoskeag, you are going to buy that power from Amoskeag or you will be getting that power from Amoskeag...

Alderman Gatsas interjected let's not confuse the issue because the first \$50 million is at risk each year for the first two years that PSNH can put down their stranded costs. They are willing to eat \$3.5 million per year or \$7 million on a

total of \$100 million. That is the most they are at risk for. The rest of the stranded costs get absorbed by whatever they sell the power plants for, etc.

Mr. Sherman replied right. It gets very confusing, but again if the transition rate...where I was going is if the transition rate is 4.4 cents and the City is sitting here and saying I can either go out and get it for 7 cents, I can accept transition at 4.4 cents or I can buy it from Amoskeag, we are comparing Amoskeag to the 4.4 cents.

Alderman Gatsas stated but I think you better check in your records or get some definite understanding that at 4.4 cents for two and a half years, I don't care what you pay for that power you can't sell it for less than 4.4 cents. You ought to get that very clear before you make those statements. If not, I can give you some documentation to help you out. I asked that precise question today.

Mr. Sherman replied Public Service can't sell it for less than 4.4 cents.

Alderman Gatsas stated you cannot go out today...I asked the question. 70% of the people in the State use PSNH for their power. You can't go out today and use that 4.4 cents number for anything less because that is the benchmark that they have set in that whole criteria for two and a half years. You couldn't go out and do it for less money as an undercutting on the deregulation.

Mr. Sherman replied I guess my question would be when you say you are you saying the City can't go out and buy it.

Alderman Gatsas responded I am saying that anybody who goes out and buys a power plant today whether it be hydro, gas, or coal burning because they have to deregulate and divest themselves of all of it.

Mr. Sherman stated they will go out and accept the bid for that transition service and Public Service will collect 4.4 cents, whether they are paying 5.5 cents or 7 cents. They are going to be charging 4.4 cents, but if Dominion comes in and buys Seabrook and they decide they want to sell it to the City for 3.5 cents, they can sell it to the City for 3.5 cents.

Chairman Wihby stated, Randy, make sure before we vote at the full Board that you have that information.

Mr. Sherman replied yes I will do that.

Chairman Wihby stated the bottom line is let's assume that Alderman Gatsas is right so for two and a half years you wouldn't see any benefit but after the two and a half years you would.

Mr. Sherman replied you would still see a benefit because you own your own power and you can use that power for what you want to use it for. I guess I don't believe what the Alderman is saying is that if we have that power we can't use it.

Alderman Gatsas responded that is not what I said.

Chairman Wihby stated what he is saying that it is not going to be below the transition rate, which is 4.4 cents.

Mr. Sherman replied but it is your power so technically you wouldn't be paying anybody anything for it.

Chairman Wihby stated right but there wouldn't be an advantage at that point for those first two years.

Mr. Sherman replied the advantage would be and let's assume that the City would have to pay Consolidated Hydro 4.4 cents for that power. All it would do it put excess cash flow in your facility and you would get the money back.

Chairman Wihby asked will you find that out for sure before the full Board votes. Can you put it in the mail to all of us?

Mr. Sherman answered yes.

Alderman Lopez stated this is very confusing with all of these numbers and maybe, Mr. Chairman, Randy could establish some type of chart so that we can follow this. These numbers that have been thrown around really muddy the water to a degree. I know that Mr. Gatsas knows what he is talking about but if we could have a chart showing the 4 cents and 4.4 cents and two and a half years we can do this or that maybe that would help me in making a decision. Just a follow-up. The \$175,000 that we are getting in taxes now, just so I completely understand, in lieu of taxes are you saying that we are going to get more?

Mr. Sherman replied yes. The agreement that was worked out with Public Service back in the early 90's and I don't know if the Assessor can clarify this, but they are actually paying off of book value.

Alderman Lopez responded that is what I am a little confused on because you are well aware of the fact that a lot of people pay in lieu of taxes, but it is not as much

as if we were to get the taxes so I am having a hard time understanding that. Maybe the Tax Collector or Assessor could clarify this. I just don't understand if somebody is paying \$175,000 how we are going to get more than in lieu of taxes.

Mr. Sherman replied because you are going to go from a book value that their taxes are estimated on to the most recent market value. The City is going to end up paying a market value for that facility.

Chairman Wihby asked, Steve, do you agree that we are going to get more money than the taxes right now. In lieu of taxes doesn't mean there is a set number. It is whatever you decide and put in your contract, isn't it?

Mr. Tellier stated the in lieu of applicable to that...there is a voluntary payment, which is what I believe Randy is alluding to. It is an agreement. The in lieu of statutorily is the City portion of the rate. Now last year we had an increase with the utilities, but what hasn't been talked about is the utilities have been pulled out of one portion of the rate.

Chairman Wihby asked so are we going to get more than the taxes with this proposal.

Mr. Tellier answered that could be but I really can't answer that without looking at all of the legislation and things are very fluid right now as we speak as far as how the utilities are being dealt with. They are very fluid right now up in the Legislature. There is the Governor's Task Force and with Judge Galway's decision there are a number of issues that are coming up.

Alderman Lopez asked if we don't buy this plant, will there be bidders out there.

Mr. Sherman answered the issue that we hear is that the other bidders want all nine or they don't want any of them and we know that at least seven of the other communities are also looking at the facilities. I mean there is going to be a bidder. The question is what are they willing to pay once you start breaking them up.

Alderman Gatsas asked, Randy, do you have a timeframe.

Mr. Sherman answered we are really waiting on the PUC at this point.

Alderman Gatsas asked so there is nothing that says we have to do this tomorrow.

Mr. Sherman answered well the PUC is currently in the process of issuing an RFP to get a valuation specialist/consultant for the hearings to do the valuation process.

The Commission is waiting until they get that valuation person on board before they lay out a calendar.

Alderman Gatsas stated I think that the dialogue that is happening at the State level about deregulation is a very concerning situation. I think that before this Committee or the full Board makes any decision on what it is going to do about deregulation and buying the power plant or even getting involved in a Memorandum of Understanding, I think you should wait until the cards are played out. I think there are some serious concerns at the State level. There are distinct differences between California and New Hampshire just like there are differences between Ohio and California, but when you start asking the close questions on this, can it happen in New Hampshire, yes it can. You know, where is it not happening in California? It is not happening in Los Angeles because they own their own power plant, but it is a different type of power plant. We are under control of the hydro here, which is a lot different. I think that any expert you talk to in the field owning one versus owning a conglomerate of different ones like oil and gas there are some serious concerns. I can tell you that in the beginning I was an advocate of looking at the power plants. I think we need to continue taking a look at where we are going with deregulation at the State level before we start talking about Memorandums of Understanding.

Chairman Wihby stated one of the things that I read in this, though, was that we can go forward with this, pass this tonight, send it to the full Board and if we don't go forward with it there is no penalty. We are only paying \$175,000 if we go with a different entity other than CHI. I don't know why we would ever do that.

Mr. Sherman stated if I may add to that, the Commission is going to go forward with its valuation hearings probably starting in April. We would like to have Consolidated Hydro on board to help with those hearings. That is part of the benefit of signing this agreement. We do get some free consulting from them. While it can be delayed slightly, I wouldn't recommend holding it for too long. Once the PUC goes through and does its valuation, the City can obviously opt out at that point but it still has to go to a referendum. There is a process that has been laid out statutorily on how we have to follow and proceed with this project.

Chairman Wihby asked so ultimately this is a referendum question besides.

Mr. Sherman answered yes.

Alderman Thibault stated you said something before about this being our own power and we can more or less do what we want if I understand that right. In other words, let's suppose that we have X amount of power that we are producing.

Can we in turn just deduct this off of our own electric bill if we opted to if it is cheaper and we feel that is the best avenue for us to follow?

Mr. Sherman replied if you have a contract with an independent supplier, you can trade power with them. The problem with a run of the river hydro plant is the power isn't necessarily there when you need it. When you need to be processing over at the treatment plant at 1 AM, the water may not be running at 1 AM so you are probably going to want to actually do some trading where you are putting this power into the grid but getting something back.

Alderman Shea asked if for instance and I have never been an advocate of deregulation from day one, I really feel very secure with what is going on and I would rather pay an extra \$10 or \$20 a month and now that electricity is going to be forthcoming, but if for whatever reason we decide as a community that we do not want to purchase the hydro plant what happens.

Mr. Sherman answered the Commission would just put it out to bid. They would put it out on the open market.

Alderman Shea asked in April if CHI decides to sit down with you and other members of your committee, are we obligated at that time because they are becoming involved.

Mr. Sherman answered no.

Alderman Shea asked they are going to provide legal advice and all kinds of experts and so forth and then we decide we don't want to purchase it...of course they have first choice after that I assume or at least they are going to be in the ballpark.

Mr. Sherman answered they may be a bidder. They may decide to bid on it but you can drop out of this process at any point up until you sign a purchase and sales agreement but even after a referendum question the Board can still take it under advisement. It is not a binding referendum. If you go through the process and we decide that it is too expensive and the City just isn't interested and we think we are better off by having Florida Power & Light own the facility, then we can back out and you don't owe Consolidated Hydro a dime.

Alderman Gatsas asked wasn't there a conversation in this Committee about putting in a floor on the purchase price if for some reason they stepped out and purchased it themselves.

Mr. Sherman answered we did talk about this and what we ended up doing in the agreement is that if the City gets to the point where the City should happen to drop out because we think it is too expensive and Consolidated Hydro enters into the auction process, if Consolidated Hydro wins the auction and ultimately ends up acquiring Amoskeag, we would have the right to buy it from them for their price.

Alderman Gatsas stated I think there were was a different conversation then that. I believe that the City was going to be reimbursed something if they bought it outside and I am sure we can look at the minutes because I know it was my question that went down that path.

Mr. Sherman replied it was your question and what we ended up with in the MOU is that we would get that right of purchase.

Alderman Gatsas responded I don't think that is the point that I brought up.

Mr. Sherman stated I think what your concern was at that point was that if we are taking this free consulting service from them and we are allowing them maybe to have some input...

Alderman Gatsas interjected why don't I put it in my words. I questioned that a consultant at no cost comes in, gives us some consultation and says that your price is \$12 million that you should bid on that project and we say we don't think it is worth it and they go out and bid \$15 million because they know it is one heck of a deal and we are short-changed because we have somebody we are not really paying anything to and they say it is worth \$12 million but they bid \$15 million.

Mr. Sherman replied then we could buy it from them for \$15 million.

Alderman Gatsas stated I think the difference was that I was looking for some sort of damage payment to the City for the difference in price.

Mr. Sherman replied we couldn't get that in an agreement. What they agreed to was to allow us to buy it for...our concern was if they came in and said they are looking for \$15 million and it is too high and then they ultimately go out and buy it for \$15 million or \$16 million or \$12 million and the City would be protected. We could come back in and re-evaluate.

Alderman Gatsas asked you don't think the City should be protected on the in-between price.

Mr. Sherman answered I just don't see how you could.

Alderman Gatsas stated I would think that if you obtain a consultant there is probably E&O insurance that floats around that would protect the City if a consultant gave you bad information. I think in lieu of and I certainly would like to look at the transcript that I asked questions on when we went down that road...

Alderman Levasseur stated I think what the agreement says is specifically right. If they are going to short change us, they are going to short change us on the down side and not on the high side. In other words, they are going to try to pay the lowest amount they can. If they only pay \$8 million and they tell us they could only get it for \$12 million then we get to take it off their hands for \$8 million so I think that language does protect us somewhat. I understand where you are going with that, but if they are going to cheat us and I hate to use those words but if they are going to they are not going to go on the higher side, they are going to go on the lower side so I think that we are protected with that language. Mr. Chairman, there is a part in here that says upon execution by CHI the City shall have a period of 45 days to approve this agreement. Does this have to go to the public? Is that 45 days a small window or do you not have to go through that process?

Chairman Wihby stated I think we would be voting to put the question on the ballot.

Mr. Sherman asked are you talking about this agreement.

Alderman Levasseur answered no. I am talking about purchasing the dam itself.

Mr. Sherman stated once you get the value from the PUC, you have a period of time to put that on as a referendum question.

Alderman Levasseur asked so this does have to go to the ballot.

Mr. Sherman answered yes.

Alderman Levasseur asked so we would have to make that determination within 45 days after we make the agreement so I am just wondering if that is a short period of time in which to schedule a public hearing or do we not have to have a public hearing on this.

Chairman Wihby stated we have 45 days to agree to the agreement, not to put it on the ballot.

Alderman Levasseur asked but if we are going to agree to it ourselves, doesn't the participation have to be from the...like how we have to go to a public hearing for the Charter amendments.

Chairman Wihby answered I don't think you need public participation. It is just a vote.

On motion of Alderman Thibault, duly seconded by Alderman Pinard, it was voted to authorize the Mayor to execute the agreement with CHI Energy, Inc. relating to the management and operations of the Amoskeag Hydro Station, subject to the review and approval of the City Solicitor.

Chairman Wihby addressed Item 4 of the agenda:

Update on deregulation & MAAP requirements.

Mr. Thomas stated what I just passed out is I tried to summarize where we have been with this electric deregulation process and the Aggregation Program and I also tried to summarize where the settlement agreement stands right now. Alderman Gatsas did mention a few things. We are in a thirty-three months transition period. This transition period started last October. You may be aware that there was a 5% reduction in rates at that time. In April of this year, that total reduction will approach somewhere between 15% and 16% and again that rate will continue for the remainder of the thirty-three month period or approximately two years from April.

Chairman Wihby asked what you are looking for.

Mr. Thomas answered I will let Tina speak in a minute, but somewhere along the line there is going to have to be a decision whether we go through a procurement process to obtain a power supplier for the large commercial customers or the large municipal customers. There are 23, I believe, in the City and another 8 in Nashua if they remain in the program. I believe Tina got an estimated price to go through this RFP of somewhere between \$36,000 to \$50,000 on the high side.

Chairman Wihby stated it seems like the longer we go, the less people we have on board with this.

Mr. Thomas replied again if you take a look at my memo or my summary, at least in my opinion during the transition period I am not sure if anybody is going to be able to beat that rate. Now Randy feels that the larger municipal customers may be able to competitively beat the 4.4 cents, but I am not sure of that. However, after a nine month period and I am not sure when those nine months started for those customers whether it started last October and if that is the case there should be...the PUC should be looking for some kind of default power for those customers starting in April. That I am not 100% sure of.

Alderman Gatsas stated it is April for commercial and industrial customers. Residential is two and a half years.

Chairman Wihby asked not for two and a half years.

Alderman Gatsas answered for two and a half years they are protected with 4.4 cents.

Mr. Thomas replied that is my understanding. That is correct and there was a nine month period for the large commercial and again as I mentioned I am not sure if the starting time was in October or this coming April. There are two options here. Either you sit back and do nothing with your municipal accounts and you pick up on the default power rate that is established through some competitive process through the PUC or you go out through an RFP process now to see if you can find a supplier of power that would be competitive. I will let Tina speak now.

Ms. Parsons stated I am somewhat surprised by what Alderman Gatsas said. I have spent four years of my existence here with the City sitting in hearings and was never aware that the company's perception of that 4.4 cents meant that there would never be a market rate of power below 4.4 cents offered to anyone in that market. Bear with me here because I pulled out the final version of Senate Bill 472, which is the legislation that set firm the settlement agreement and there is a section in here that says that at the end of the transition service period up to 25% of the residential customers, street lighting customers and general delivery service rate G customers who have not chosen a competitive supplier may be assigned randomly to register competitive suppliers other than the transitional service supplier. So, it almost defeats the whole definition of competition day.

Alderman Gatsas replied I agree.

Ms. Parsons stated I have to say that that is the first time in four years that I have ever, ever heard anyone say outloud that in essence by setting the terms the way they set them that they haven't done anything towards competition.

Alderman Gatsas responded I think if you read the first thing you said there it says at the end of the transition. Now the end of the transition is a two and a half-year period.

Ms. Parsons replied correct, for those customers who have not chosen a supplier. So, the ownness on this whole deregulation issue was that there would be a competitive market that would start at some point in time. Now, we can all agree that that point in time has shifted considerably all the time and I said to Frank

when we met that the stipulations in the settlement agreement assumed initially an October 1 competition date so the terms that were set-up originally said that the same accounts that Alderman Gatsas refers to would be open to competition in that nine month period. If that had held true for the October 2000 date, it would be February of 2001. So, now that that date has shifted to April, it will be out nine months to December. I did want to highlight to Frank that that does affect our largest municipal accounts because at some point they won't be subjected to that 4.4 cents. They won't be entitled to receive that 4.4 cents and they will have to do something on their own for competition or the alternative is that they end up with the State's default rate, which will be a short-term market rate. That leads to the whole issue of...the California issue is do you want to be in a spot market, certainly not a daily spot market because watching as prices the way I do on a daily basis that is not the way to do business or the alternative, what the State has set-up now is a six month market rate. So, again there is risk in that. The suppliers have to determine what it is that they put into their risk assessment when they did that. It also assumes that they are going to get customers that they may not necessarily want and this is why when we looked at competition the concern for the residential and small business customer is that those are the customers that are less desirable to a market supplier. They are more costly to attract and they are more costly to serve. Frank and I have beat this up for a week and I don't have any answers to say that I know definitively that that 4.4 cents rate is competitive or not. I am about to shift things in Tom Arnold's direction a little because it was always my impression from when I was in the Finance Department and then when I was in the Highway Department that the whole reason that the issue of Aggregation came about in the first place was that in a competitive market, PSNH would no longer be the sole supplier of electricity. Under our procurement code, it states that if it is not a sole service supplier we would need to establish a bidding process so I am going to kind of shift that in Tom's direction. I do have one important issue that I need to bring up with this Committee and that is we have two existing contracts right now. Outside of the electric issue, there is the gas and the energy efficiency contracts that I manage. The gas contract will expire in September. We have an account in September and October based on when we started transporting that will expire and I need to do another RFP for that.

Mr. Thomas stated I just want to jump in. First of all, Tina and I disagree on a lot of different issues. I have one line of thinking or opinions and Tina obviously has another and we haven't been able to meet on any common ground yet. As far as the gas contracts and the energy contracts that she is talking about needing to be renewed, I find it difficult to recommend at this time to the Board to go ahead and renew them on the basis that we are going because quite frankly we are losing money on them. If you take a look at the cost to the Aggregation Program to administer those two contracts, it is a losing proposition. As far as moving forward with some kind of competitive bidding to procure a power supplier for at

least the municipal load, again, I have my opinion. I am not sure if we would be able to beat the default power rates. As far as the need to go through the procurement process, if the State PUC puts out a bid for default power supply, to me that is a State bid and we should be able to jump on the State bid as far as utilizing it to conform to our procurement code. It is a very complex issue, this whole issue of deregulation. Even with the dam, some of the statements that Randy mentioned I am not sure if I agree with 100%. Yes, you are going to be able to generate power from the dam at less than the transition rate, however, as Randy did mention you have to have a back-up supplier because it is conditioned on the run of the river. Typically your peak demands are at different times so you have to have a power supplier to offset your needs, even with the Amoskeag Dam and typically when you have an offset supplier you usually end up paying a premium. Aggregation, the MAAP program was set-up with really the intent to try and pass off some of the benefits...to take the municipal load, which is a sizable load, it is a jewel as Randy mentioned, to take that as a base and build on that base to try to pass off some of the savings and benefits as far as long-term stable competitive contracts to residential and small commercial. However, I don't see that happening, at least during the transition period and from a little market survey that we did of suppliers, quite frankly they are not interested with residential and small commercial at this time. They would be interested in the municipal load. There are some benefits of contracting your municipal load because you can take away the fluctuations in the marketplace by going through a procurement process and negotiating a long-term contract maybe five years plus or minus. However, obviously when you negotiate a long-term contract you are taking away some of your risk and you are going to pay for that in higher costs. If you are asking the supplier to assume some of the risk in the long-term contract, he is going to add that to the selling price of power.

Ms. Parsons stated I still want to press forward some of the legal issues in not doing anything. Nashua is part of the Aggregation Program and with the intermunicipal agreement that we have, if we do not do an RFP, Nashua's procurement is very similar to our own. It is not judged to be an emergency procurement. It does require a bid process. All things being said, my own belief is that I would rather see us take an action that protects us or attempts...at least something that is an effort towards perhaps mitigating some of the risk of an open market that is not truly competitive or the alternative is I have asked Tom do we have to go out and procure by the procurement code, do we have to do a bid. If the answer to that is yes, then we are going to be looking at a process that we are going to do that is going to tell us what the market is looking for. I would say to Alderman Gatsas that in light of the California experience that the City for four years has argued that in order for some of this to work properly the transition service rate, if it is set artificially low, will just not bring a competitive market at all and thereby the smallest customer will only ever benefit if there is truly a

competitive market. If, in fact, the legislature in this session decides to revisit that transition service price to something that is closer to what you and I agree is 7 or 8 cents, then perhaps those suppliers that either didn't respond to our initial survey that Frank and I conducted through our consultants in October, either didn't respond at all or responded that they couldn't compete in the market as it is designed now. That may change, but it would require that the legislature address that and of course they can't do that without PSNH being at the table.

Chairman Wihby asked are you sitting there, after we have gone through this a number of times at the full Board saying okay we are done no more money we won't come back again, one more time and telling us you need another \$36,000 to proceed. Is that what you are telling us?

Ms. Parsons answered what I am saying is that if, in fact, there is going to be an open market for power in April that the City would be required by its procurement code to address that through an...

Chairman Wihby interjected Tom is saying that we can take the State bid.

Ms. Parsons replied it is for default power and for the first initial nine months that is set at 4.4 cents. After that nine months, those City accounts that fall in those categories will fall to a default power if we do not have an alternative supplier, but it will just happen automatically and you will have a rate that will change every six months and the market will determine what that rate will be.

Chairman Wihby stated Frank you were on the hot seat last time and now it seems like you are recommending let's call it quits.

Mr. Thomas replied well when we took over the administrative oversight of the Aggregation Program back in May of 1999, we were involved in being active interveners in the restructuring process and I recommended to the Board at that time that we continue to fund that effort because there was a lot of time and energy and dollars spent getting us to that point and to drop out at that time, we didn't see it through to conclusion and I firmly believe that the fact that the City was an intervener did help shape the final settlement in a positive manner. Whether the City should have been interveners to begin with, well that is a question. So, I have been supportive of the program from Day 1 to see the process through. However, now I am looking at a settlement agreement that has these transition rates that are very favorable. I take a look at what the original intent of the MAAP Program was and that was to spin-off some benefit to residential and small commercial. I do not see that happening in the near future. The only benefit per say in my opinion to go through the procurement process now and to try to negotiate a vendor to supply power for the municipal load, the large municipal load, of which

there are 23 would be to potentially lock up a power rate for a long period of time – say five years. Now if I was in private business, I would be willing to pay a premium on that user rate so that I have one set rate over that five-year period. Now I would be able to take that rate and build it into the cost of the product that I am developing. It is like an insurance policy, but again I look at it as if you are going to get a level rate that is going to take away some of your risk, you are going to pay a premium for it. Do we want to pay a premium? I don't know. I think that is a question that has to come down to the Board. I look at a short-term default power contract as one that you are going to get reasonable rates based on the short-term market rate. Right now, as Alderman Gatsas noted the wholesale rate for power is between 7 and 8 cents. There are all kinds of problems throughout the country in California and whatnot. Now, what I am reading also is that because there is a demand and because the profits are so high in selling gas and other energy resources that it is like a gold rush. There are a lot of companies and a lot of people now drilling more wells and this and that and it is difficult to say what is going to happen six months, nine months, a year or two years down the road. The wholesale rate could drop at a later date. It is just that I can't sit in front of you saying if we spend another \$36,000 to \$50,000 there is going to be any substantial benefit that you can put in your hand and that has been part of the problem with the whole Aggregation Program from Day 1.

Chairman Wihby asked just so we know what we are voting on here, what motion are we going to need if we want to take your response. Nothing? Should we just receive and file this?

Mr. Thomas answered I would suggest two things. Let us meet with the City Solicitor's Office to get some legal rulings regarding the ability to use the State default power bid as a means of going through the procurement process and I would like to verify the time period that maybe I am not understanding. I was under the impression that the larger customers, their clock started in October and I thought it was nine months from October and not nine months from this coming April. If it is nine months from this coming April, we are not in any rush anyway to go through the procurement process and as Alderman Gatsas was saying, this is still evolving. The settlement is, I believe, being appealed to the State and Federal Superior Court. There is also some talk that because of the wholesale rates being up to the 7 and 8 cents, maybe the plan is not going to work and maintain that 4.4 cent transition rate. There is a long way to go and if we don't need to rush into anything because of nine months from April, I would just say let's table it and get some more information and come back to you.

Alderman Thibault moved to table the issue of going out for an RFP for electricity. Alderman Pinard duly seconded the motion.

Chairman Wihby asked Ms. Parsons the other side of waiting on that.

Ms. Parsons answered the only thing I need to inject again is that there is an expiring gas contract and an expiring energy efficiency measures contract that we are using to get some buildings in this City...

Chairman Wihby interjected when do they expire.

Ms. Parsons stated the energy efficiency measure contract with Dominion Advantage expires in May and the gas contract will expire in September, however, it does require a notice to Keyspan if we are going to return to their system. So, although the electric issue perhaps can be delayed, a decision on whether or not to participate in the natural gas market...

Chairman Wihby interjected it doesn't have to be this month. We have until May.

Ms. Parsons stated well my clock is running out and I waited as long as I could for all of these State issues with electricity to work themselves out with the idea, if you will, that the economies of putting together one bid package...but I find myself in the same precarious position that I was in two and a half years ago that if we are going to do natural gas and energy efficiency measures we are going to probably have to do them outside of electricity because the timing won't work.

Alderman Gatsas stated I believe the 4.4 cents per kilowatt hour was set in June or July when the price of a barrel of oil was somewhere around 21 or 22 cents, so when you look at that number and certainly Mr. Sherman for him to come back and say that somebody could produce electricity at 4.4 cents when the price of oil is where it is today, leads me to believe that there are some problems with that philosophy. You know, Frank, I just want to tell you that you did a good job with the overview because you and Tina wrote something that most everybody can understand when they read it and I can tell you that deregulation is not something that you want to read when you have much time on your hands. The biggest factor is obviously, and I think Tina you alluded to it, is that the State and Federal Supreme Courts now have this under appeal. That is why the stay is in place that didn't start in October but starts in April and I don't think that starts until a couple of other things fall into place.

Ms. Parsons replied mainly the securitization.

Alderman Shea asked in terms of the gas situation, if we don't do anything, what happens.

Ms. Parsons answered if we opt not to put a bid out for natural gas, a couple of things happen. First, I have to notify Nashua that their school accounts that are included in that contract will expire and that they will have to do something. They will have to either chose to bid it themselves or they could go back to Keyspan. The second thing is a notice to Keyspan Energy to let them know that we want to come back on their system because the gas is still going to flow to the Manchester School of Technology and the Airport.

Alderman Shea asked by signing the agreement are we or is the Airport and the School of Technology better off, about the same, worse off or what.

Ms. Parsons answered the issue that Frank brings up about cost is that the contract itself is a guaranteed contract of 5% below the local utility so last year the accounts that I managed that contract for saved a total of \$30,000 and were well below the 5% contract guarantee. The issue that we have because this program that we thought might be attractive to the industrial consumer, they were not interested in an Aggregation Program so the expenses for the initial RFP and then of course my salary to manage that contract are not enough...there is not enough revenue generated to cover those costs.

Mr. Thomas stated that is my concern. Moving forward with...first of all we would have to go through the procurement process again if we move forward with it and there is no guarantee this time around that we are going to do 5% better than the default rate. There is not a guarantee that there is a savings and as Tina mentioned it is a good program and if we had the volume of customers, it would have been self-sufficient but right now it is adding more liability to the balance sheet for the Aggregation Program than it is in the revenues it brings in. Again, it is very difficult for me to recommend to you people who are watching the bottom line on that program to continue to move forward with it when I see that it is not balancing out.

Alderman Shea asked how much are we losing approximately. \$40,000 a year? \$50,000? \$25,000? What is the difference?

Ms. Parsons answered the total to date is about \$90,000 but that includes the RFP that we had amortized over a two year period.

Alderman Shea asked in other words that is the amount of loss that we are incurring, \$90,000.

Mr. Thomas answered since the beginning of that program the total liability was \$90,000 but there were some revenues that came in from the charging of the Aggregation.

Alderman Shea asked did you say \$90,000 or \$9,000.

Mr. Thomas answered \$90,000.

Alderman Shea asked and if we go out for another bid your contention is that that \$90,000 would probably be about \$120,000 next year if you kept adding to the deficit.

Mr. Thomas answered it is going to continue to increase unless you can expand the user base and be able to charge more of the...

Ms. Parsons interjected except the accounts that are in there receiving the benefit from that contract are saving \$30,000 a year.

Mr. Thomas stated but we are not saving it as a community.

Ms. Parsons replied you are from the Manchester School of Technology and the Airport.

Chairman Wihby asked how much are we saving there.

Ms. Parsons answered the Airport was \$10,000 and the School was \$5,000 and the balance went to Nashua.

Alderman Lopez stated the Airport only saving \$10,000 is like a drop in the bucket. I am not convinced; I am ready to jump ship on all of this stuff because it is too technical. If it is too technical for the State and we get down at this level and we don't have all of the people making the big bucks advising us or counseling us, I don't see the light at the end of the tunnel. I am really...we are going in the wrong direction. Let's jump ship and go home.

Alderman Thibault stated, Tina, as I understand it natural gas is going up even faster than oil is presently so there is a possibility that we are going to incur a more major deficit than we have already if, in fact, natural gas goes up the way I have heard.

Ms. Parsons replied it is not related to the price of natural gas. It is related to the fact that my salaries and fixed expenses for the contract are just that. They are fixed expenses so unless you were to go out and roll this program to other communities to become part of the Aggregation fee, that is why you don't recover it all. As long as it is limited to just the two accounts in Manchester and the six in Nashua, it is a losing proposition.

Alderman Levasseur asked, Frank, JacPac and other corporations that are in our City can go out and negotiate their own rates right.

Mr. Thomas answered yes they can.

Alderman Levasseur asked they are large enough to go out and get a better rate than the average homeowner.

Mr. Thomas answered that is correct.

Alderman Levasseur asked what about our City as far as all of our light poles, etc. I have seen the price we pay for electricity. Do we go out and negotiate or are we stuck?

Mr. Thomas answered right now our street lighting costs are eligible for the thirty-three months of transition rates. Again, those are excellent rates. I am not sure that we would be able to do better than that going out and competitively bidding it. As far as the municipal rates, again, you could talk to 10 different people. My opinion is that we are not going to do better with the larger municipal loads than the default rate that the PUC is going to obtain. However, you may be able to get it a little bit better than the default rate.

Alderman Levasseur stated but that is assuming that there is somebody to have competition with.

Mr. Thomas answered that is correct and we did an informal survey a few months ago and we asked the questions to some of the larger suppliers throughout the country would you be interested in coming up here to Manchester and selling power and quite frankly all of the respondents to the survey were pretty nil about the whole thing. They basically were saying well we want to see what happens through the transition process and if we come up here we may be interested in talking to you about your municipal load but we are not interested in residential and this and that.

Alderman Levasseur stated that brings me to the final question which is if we own the dam would you be...would you feel that you could get a rate lower or at least over the long run you would be able to stay within the ballpark compared to what you are paying now. I don't know if I should bring you into this controversy, but I think it is something that bears on what we are talking about tonight.

Mr. Thomas replied obviously hydropower is cheaper to generate than any other type. The problem with hydropower is it goes up and down and again I mean I am

not an expert. Randy and Tina have been involved with this a lot longer than I have, but it is my understanding that when you are buying...you have to have another source for the power and you are buying power at peak times so you are going to pay a profit. If you take that and average it down with the low cost hydropower, what that is going to come out with, I don't know.

Chairman Wihby called for a vote on the motion to table the RFP for electricity. There being none opposed, the motion carried.

Chairman Wihby addressed Item 5 of the agenda:

Copies of articles related to public aggregation programs.

On motion of Alderman Thibault, duly seconded by Alderman Shea, it was voted to receive and file this item.

There being no further business, on motion of Alderman Shea, duly seconded by Alderman Thibault, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee